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by City Manager's Office

## Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Leslye Krutko

**SUBJECT:** MORTGAGE INTEREST  
DEDUCTION CHANGES

**DATE:** November 2, 2005

Approved

Date

11/2/05

### INFORMATION

In early October, the President's Advisory Panel on Federal Tax Reform discussed several proposals related to changing federal tax laws. These preliminary recommendations were offered in advance of the November 1, 2005 release of its final tax reform recommendations. One of these preliminary proposals suggested capping the mortgage interest deduction for loans of more than \$350,000.

On October 25, 2005, the San José City Council unanimously passed a resolution opposing such a cap because it will adversely impact San José and other high-cost areas of the nation. Attached is the letter sent on October 28, 2005 to the Chair and Vice Chair of the President's Advisory Panel on Federal Tax Reform.

As noted above, the Panel's final recommendations were released on November 1, 2005. City staff will analyze and evaluate the impacts of each of the Advisory Panel's final recommendations and will bring this information back to the City Council for consideration.

LESEYE KRUTKO  
Director of Housing

Attachments (2)



October 28, 2005

Chairman Connie Mack  
President's Advisory Panel on Federal Tax Reform  
1440 New York Avenue NW, Suite 2100  
Washington, DC 20220

Vice Chairman John Breaux  
President's Advisory Panel on Federal Tax Reform  
1440 New York Avenue NW, Suite 2100  
Washington, DC 20220

Dear Senator Mack and Senator Breaux:

As the Director of Housing for the City of San José, I have followed with interest the draft recommendations from your panel in advance of the November 1, 2005 release of the final tax reform recommendations. Of particular interest to the City is the provision related to changes in the mortgage interest deduction. I write today to urge you not to include a change to the mortgage interest deduction in your final recommendation report.

The proposed reduction in the mortgage interest deduction would restrict homeowners from deducting mortgage interest from their federal taxes for any amount over \$350,000. If implemented in its present form, this change would have detrimental consequences for current homeowners and future first-time homebuyers living in high-cost areas like San José. In San José, where the median home price is currently \$733,000 (September 2005), this provision would impact a majority of our housing market. The national median family home is priced at \$208,500.

Homeownership opportunities in our region are already far below those at the national level. Only 18% of residents in San José can afford to purchase a median priced home; for comparison, the percentage is 48% nationally. This provision would drive homeownership further out of the reach of working families and work in direct opposition to the President's stated goal of increasing homeownership opportunities for all Americans.

On October 25, 2005, the San José City Council unanimously passed a resolution opposing the cap on the mortgage interest deduction because such a policy would adversely impact working families. We urge you to remove this recommendation from your final report in order to support the investment in homeownership for all families, particularly those families living in high-cost areas.

I look forward to reading the final report. Please feel free to contact me at (408) 535-3851. I appreciate your time and consideration of this important matter.

Sincerely,



LESLYE KRUTKO  
Director of Housing

Attachment

**RESOLUTION NO. 72944**

**A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN  
JOSE OPPOSING A RECOMMENDATION TO CAP THE  
MORTGAGE INTEREST DEDUCTION**

**WHEREAS**, the Advisory Panel on Tax Reform, a panel appointed by President Bush, to make recommendations for overhauling the federal tax code, is considering a proposal to allow homeowners to deduct all of their mortgage interest only if they owe less than \$350,000 on their home; and

**WHEREAS**, the median-priced home in Santa Clara County in August 2005 was \$714,000 and just 14% of Californians can afford to buy a median -priced home; and

**WHEREAS**, a federal proposal to cap the mortgage interest deduction at \$350,000 would be detrimental to homeownership in the region and place the Silicon Valley at a competitive disadvantage.

**NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SAN JOSE THAT:**

The City Council of the City of San Jose hereby opposes a recommendation to cap the mortgage interest deduction by the federal government.

RD:NKS  
10/24/2005

Res. No. 72944

ADOPTED this 25<sup>th</sup> day of October, 2005, by the following vote:

AYES: CAMPOS, CHAVEZ, CORTESE, LeZOTTE, NGUYEN,  
PYLE, REED, WILLIAMS, YEAGER; GONZALES

NOES: NONE

ABSENT: CHIRCO

DISQUALIFIED: NONE

ATTEST:

  
\_\_\_\_\_  
LEE PRICE, CMC  
City Clerk

  
\_\_\_\_\_  
RON GONZALES  
Mayor